THE POSSIBILITY OF COMPILING AN INDEX OF THE COST OF LIVING—DISCUSSION

Irving Fisher.—I have here two price charts which may be of interest to this audience. On one I have plotted the money in circulation and in banks in the country, and the Index Number of the Bureau of Labor Statistics, and also, for comparison, two special index numbers made for me by Mr. Charles A. Bell of the Statistics Bureau. These last are based on a smaller number of commodities, chosen for their greater responsiveness to those forces which cause price changes. One is for the country at large and is based on approximately 200 commodities; the other is for New York City and is based on 70 commodities.

As would be expected, these two index numbers show greater variations. Especially do they rise sooner and higher at the time of the war than the regular U. S. index number. There is also, apparently, a closer correspondence between them and the currency curve.

The curve for each of these special index numbers is forked at the right, the upper line showing the price level or average excluding the articles on which price fixing had been practised; the lower and more sluggish line showing the effect of government regulation. The effect has, however, been very slight.

Turning to the second chart, we see the price curves during eight important wars. The first, that for the Napoleonic War, which is especially interesting as most nearly comparable to the recent Great War, shows a decline before the coming of peace. That for the Civil War shows a decline immediately after peace came. But the figures are for prices measured in paper. Translated into terms of gold, prices showed no such high rise during the war, and no real fall after, rather, indeed, a rise, though with variations.

History, however, is of little use to us in making predictions today. There are many factors to which history gives us no clue. Rather, a close analysis of the relative strength of the various forces, international to a large extent, which will actually control prices is the only method we have of forming any opinion on future price movements.

Simon Litman.—In his discussion of Professor Royal Meeker's paper, Professor Irving Fisher placed before us a chart showing the upward movement of two curves, one representing the amount of currency in circulation and the other the general level of commodity prices, the inference being that the rise of the latter is conditioned by the first. I can not but think that very little is to be gained by either

the drawing or the study of such charts. It seems to me that it is idle to conduct searching inquiries into the relation between currency and prices without considering at the same time credit instruments which play a much more important rôle than money in modern business transactions. It is irrelevant whether the lag of the rise in prices is two months behind the rise in the amount of currency, as Professor Fisher was able to establish for the United States, or whether it is three months, as Professor Nicholson, by using quarterly periods, found for England. Very little light is thrown, by ascertaining these facts, on the fundamental question as to what caused the rise in prices. A chart like the one presented by Professor Fisher is misleading unless it is prefaced by a definite statement of its limitations. It is misleading because it has all the appearance of graphically presenting the reason for the advance in prices while in reality it may do nothing else than show the existence of two concurrent phenomena, the causes for which must be sought elsewhere.

It is hardly necessary for me to discuss here what have been some of the causes, besides inflation, which have produced the upward trend of commodity prices: the withdrawal of a large amount of capital and labor from productive occupations, the increased demand for many commodities, the destruction of goods in the war zones and on the seas due to the sinking of cargo laden ships by submarines and mines. It is true that these causes do not lend themselves to plotting on charts, but this should not prevent one from keeping them constantly in mind when one deals with the problem of war prices.

Professor Royal Meeker's painstaking construction of the Index of the Cost of Living is somewhat impaired by the fact that the laborer's provision basket does not contain at any given time all the commodities which Professor Meeker uses in making his computations. Unless one takes account of substitution and of elimination which occur with the advance in prices one does not gain a correct view of the situation. The laborer and his family may have been consumers of eggs, butter, and milk when certain prices for these products prevailed; but with rising prices they disappear from the workingman's table, other less expensive goods taking their place. The difficulties of keeping track of such changes are undoubtedly great, but for the sake of accuracy it is worth while to point them out; the effect of these changes upon the laborer's diet and upon his ability to make both ends meet is obvious.